Business Processes Guidebook

Module 3

Resourcing and Budgeting

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INTRODUCTION

Module Overview

Module 3 provides an in-depth discussion of two of the key processes comprising the Integrated Management System (IMS)--Resourcing and Budgeting. The module is divided into three sections:

1. Resourcing,

2. Budget Formulation, and

3. Budget Execution.

A majority of this training refers to the Defense Contract Management Command (DCMC) Business and Performance Plan processes. Attendees should have completed the IMS Overview and Planning training prior to receiving the training included in this module.

Concept of Operation

In light of continuing budget reductions, we must compete with other Department of Defense (DoD) agencies for scarce dollars, and we must demonstrate that we are using our resources to the maximum benefit of the Command. Employing standard budget formulation and allocation methodologies, formulas, and reports, will facilitate equitable allocations to the Districts and Contract Administration Offices (CAOs) and will improve how well we justify our resources.

As we adapt to the funding environment, we must focus on documenting our plans, resource requirements, and performance tradeoffs in the Performance Contract, so that the necessary tools are in place to make sound, equitable resourcing decisions. This will require all employees and managers to fully consider the cost and benefits of how they perform the mission, and to evaluate performance and seek process improvements prior to requesting additional resources.

The Command is committed to moving toward Unit Cost management in Fiscal Year (FY) 99. Our focus shifts from managing fixed budgets to managing processes and their resultant costs. The aim of Unit Cost management is to relate total cost to the work or output produced. This requires us to alter the way we think and work, and change the way we manage. We must connect resources to outcomes and recognize that future costs are a consequence of today's decisions. DCMC has pledged to provide maximum quality at minimum cost – achieving better value for each Defense dollar spent. Unit Cost methodology will help us achieve this result by identifying and reporting all costs as they relate to outputs. More specific information regarding Unit Cost management is included in the Unit Cost Implementation Plan.

Section Overview

This section will discuss the following areas of the Resourcing process with an emphasis on the importance of employee input, planning, and communication:

- Background,
- CAO Full-Time Equivalent (FTE) Allocation,
- Non-labor,
- New or Changed Workload Requirements,
- Business Case Process, and
- Business Case Requirements.

BACKGROUND

In 1994 the DoD Inspector General identified that, "DCMC does not have an effective process for determining manpower requirements," and "DCMC does not have a consistent process used throughout the Command that reviews and projects manpower requirements." The House Appropriations Committee, Survey and Investigations (HAC S&I) representatives amplified these same findings by stating "DCMC does not have an acceptable staffing plan in place. The Defense industry has downsized; DoD in-plant presence has not."

Resource Utilization Council (RUC)

As a result of these comments and findings, DCMC established the Resource Utilization Council (RUC). The RUC's objectives are to:

- Develop near- and long-term workload and resource forecasts based upon quantitative and qualitative workload measurement techniques;
- Monitor Command-wide performance and adjust resources accordingly;
- Direct budget formulation, development, and execution; and
- Review and recommend policies on Program Objectives Memorandum (POM) development and presentation.

Business Process Team (BPT)

It was determined that the RUC needed to be supported by a team that could carry out assignments involving the collection and analysis of data and the formulation of recommendations for submission to the RUC. The Business Process Team (BPT) was created as the conduit of all resourcing requests and recommendations to the RUC.

RUC Ground Rules

The RUC has established the following "Ground Rules" for management of DCMC's resources:

- FTEs and funding are part of a zero sum game – there are no unallocated FTE resources and limited non-labor resources from which to draw.

- New requirements must be resourced through reallocation.

- CAO Business Cases should be based on the assumption that they will not receive any additional FTEs.

- Districts have authority to reallocate 10% (10 or fewer) of a CAO's resources upon notification of the RUC. Where the reallocation is greater than 10% or a total of 10 FTEs, a District will present its proposal to the BPT and RUC for approval of the reallocation of additional FTEs from within the District's existing resources.

- Resourcing work transfers:

  – FTEs should move with the work if the impact is 5 or more FTEs, and/or a minimum of $50K in non-labor.

  – Impacted Districts will reach agreement on the transfer of the FTEs, that is, number of FTEs, timing of transfer, any personnel actions required, etc.

  – Work transfers affecting the Defense Contract Management District International (DCMDI) will be considered on a case-by-case basis.

- The process should be completed as quickly as possible.

- Proposals must be received one week prior to the BPT meeting to allow members to review the proposal and supporting data. Business Cases submitted less than a week in advance will not be considered or presented to the BPT or RUC until the next cycle.

Approved Business Case requirements are compiled into a DCMC Unfunded Requirements Listing, in priority order. As funds become available from inside or outside the Command, District allocations are increased or decreased (depending on the source of the funding) to cover the highest priority requirements.

CAO FTE ALLOCATION

Data Collection and Validation

In February, as preparation for the POM and the next fiscal year begin, the DCMC Planning and Programming Team collects the following data to populate the RUC Estimator Model:

- Number of contractor employees on government contracts (Plant Offices);
- Number of Part A + 30% of Part B contractors (Unliquidated Obligation (ULO) greater than zero, inspection at origin, and production must not be complete (Geographic Offices);
- Data regarding uniques (for example, National Aeronautics and Space Administration (NASA), Transportation, Navy Nuclear, Privatization, etc.);
- Data regarding Defense Plant Representative Office (DPRO)-like facilities (ULO > $60M, contractor employees > 500, and staffed with a multi-functional team) (Geographic Offices).

The Districts and CAOs are given the opportunity to validate and correct the data collected.

Data Analysis

Once the data is validated, the RUC Estimator Model is applied. The model is a quantitative tool that determines baseline CAO staffing estimates based upon workload. Along with the initial staffing estimates determined by the model, the following items are also reviewed and analyzed by the BPT and RUC:

- Indirect/direct relationship (18% indirect is average):
  - Performance Labor Accounting System (PLAS),
  - Actual positions;
- Workload trends;
- Metrics;
- Resource Review results;

- Performance Based Assessment Model (PBAM);
- Internal Operations Assessments (IOAs); and
- Other documents/reviews which impact resource requirements.

Based upon the results of the BPT's analysis of the above data, the proposed "endstrength" requirement is defined. Further analysis of the CAO's actual endstrength, FTE execution, and the personnel staffing timelines is performed to translate the endstrength requirement into an FTE target. Further details regarding computation of FTEs are included in Budget Formulation, Section 2.

The resulting FTE target is presented to the RUC, and finally to the DCMC Commander. The targets, as approved by the DCMC Commander, are published in the annual DCMC Business Plan for development of the annual District and CAO Performance Plans and the POM.

NON-LABOR

Funding constraints force the Command to comply with fewer resources each year. Non-labor targets must be established which fully consider the mission requirements, but do not exceed our funding limitations. As the workforce declines, the knowledge, skills, and capabilities of the remaining employees become more critical. Adequate resourcing to support our workforce training and information technology requirements is a high priority within the Command.

NEW OR CHANGED WORKLOAD REQUIREMENTS

Data Analysis

The Team Leader should, on a continuous basis, review the Team's data collection programs, including PLAS, metrics, etc., to determine the accuracy of the information. The Team Leader compares the Administrative Contracting Officer (ACO), Quality Assurance Representative (QAR), Industrial Specialist (IS), and others, submittals to the data collection programs and makes a determination based upon team member input as to the need for additional resources or if there are surplus resources.

If the Team Leader identifies that there is not sufficient work to support all of the positions on the Team, notice is given to the Tertiary Level Field Activity (TLFA) Chief that there is an excess number of personnel on that Team.

Tradeoffs

If the Team Leader identifies that there are not enough resources to handle the workload, he or she determines if there are potential tradeoffs. Tradeoffs are the realignment of assignments and resources to compensate for a changing workload or environment. For example, if a QAR identifies the receipt of a new contract with significant workload requirements, and another QAR identifies the completion of a contract that had a significant workload, the Team Leader then shifts assignments to compensate for the changes.

Another example of a tradeoff is the identification of certain operations or functions that will not be performed, and the realignment of the extra resources to support additional work elsewhere. In both cases, the Team Leader informs his or her supervisor of either the realignment or the identification of tradeoffs. If a tradeoff cannot be accomplished at the Team Leader level, it is escalated to the next level of supervision for resolution.

If a new travel requirement arises that is not included in the initial plan, a review of other non-labor accounts should be performed and resolved prior to elevating the new requirement to a higher level.

Elimination of Unnecessary Tasks

When resolution cannot be reached at the Team Leader level, the TLFA Chief examines all of the teams under his or her cognizance for a possible tradeoff. This tradeoff may require only the shifting of personnel between teams or a complete reorganization of the office. The TLFA Chief identifies the series and numbers of personnel impacted. If the tradeoff entails the cessation of other work that may be imposed by Defense Logistics Agency (DLA) policy or other regulatory requirement, the TLFA Chief forwards the matter to the CAO Commander. If the situation is such that there is not sufficient work to support all assigned positions, the CAO Commander is notified. If the CAO Commander determines that there is still an excess number of resources after balancing the teams, the CAO Commander surrenders the FTEs to the District for reallocation.

If the adjustment of resources can be accomplished internally to the CAO, a Business Case may not need to be prepared. If the new workload cannot be absorbed by the CAO, the CAO prepares a Business Case in accordance with DCMC Policy Memorandum 97-57, Standard Business Case Format. As directed in the memorandum, the Business Case documents the complete analysis that has taken place, including the identification of tradeoffs and the other areas identified in the Standard Business Case Format.

Performance

Beginning in FY 99, DCMC is required to enter into a "contract" with the Defense Management Council (DMC). The purpose of the contract is to articulate expectations for DLA's performance for the resources allocated during a given fiscal year. Similar to the DLA Performance Contract, the DCMC Performance Contract, as defined in Section 2 of this module, is a "negotiated agreement between DCMC and a District or a District and a CAO, to deliver a set of specified outcomes, as measured by performance indicators, at a specified cost."

The DCMC Performance Contract serves two purposes:

- It provides resource managers at all levels with performance measures to support resource requirements; and

- It meets the Government Performance and Results Act (GPRA) requirements to demonstrate results for resources received.

The basic assumption is that the majority of work is covered within initial funding levels since resourcing is a zero sum game. Since it is unlikely that additional funds will be made available, unfunded requirements must be fully supported with performance metrics before resources are realigned from one CAO to another and/or one District to another to cover the Command's highest funding priorities.

BUSINESS CASE PROCESS

If the new workload cannot be absorbed within the CAO, the complete analysis performed to reach that conclusion must be fully documented, including the identification of tradeoffs.

- District Headquarters staff performs analysis and identifies District Headquarters level tradeoffs.

- If the additional requirement can be funded within existing District authorization/RUC Ground Rules:

  - The affected CAOs are notified (gaining and losing) in writing, and

  - The RUC is notified of the adjustment.

- If the additional requirement cannot be funded within existing District authorization/RUC Ground Rules:
  - A Summary District Business Case is prepared:
    - The District Commander approves the Business Case,
    - The affected CAOs are notified in writing, and
    - The Summary District Business Case and supportingCAO Business Cases are forwarded to the RUC for decision.
  - The RUC issues a decision.

    District Headquarters notifies the affected CAOs of the RUC meeting minutes in writing within 10 days from the date.

BUSINESS CASE REQUIREMENTS

Due to funding constraints, the reserve retained for unfunded requirements is generally minimal. However, it is recognized that some unplanned workload changes may require adjustments to FTEs or target annual operating budget authority. Where this is necessary, the Business Case process and format shall be followed. The data requested by the Business Case format is necessary to evaluate resources prior to reprogramming from one District to another and/or from one CAO to another, and to support Command requirements to the Office of the Secretary of Defense (OSD) and Congress.

The process and format require that the following categories of information be addressed:

- Purpose,
- Resources,
- Analysis,
- Workload Trend Data,
- Metrics,
- PLAS/Unit Cost,
- Performance Plan Adjustments,

- Efforts to Maximize Use of Existing Resources, and

- Impact if Disapproved.

The format is fully defined in DCMC Policy Memorandum 97-57.

SECTION SUMMARY

The employee plays a key role in resource allocations. The data systems that are used in making resource decisions require accurate information about employees. For example, in the Continental United States (CONUS), the RUC Estimator Model includes the "number of contractor employees working on government contracts (Resident CAOs)" and the "number of Part A and B contractors (Geographic CAOs)." This information is gathered from the Automated Metrics System and the Mechanization of Contract Administration Services (MOCAS). If the data in any of these systems are inaccurate, the model will give an inaccurate result.

The employee also enters data into PLAS. PLAS plays a vital role at DCMC by showing what processes occupy the greatest amount of DCMC's time. PLAS allows DCMC to examine its priorities and to determine if it is concentrating on high risk/high reward areas or low risk/low reward areas.

DCMC relies on employees to identify work that is completed or will be completed in the near term. The employee is also responsible for ensuring that management is aware when new work has arrived or is due to arrive. Employees provide an analysis of the arriving or completed work and make recommendations as to the staffing necessary to support this workload.

Resourcing and resource utilization require that all members of DCMC work together to assure that offices are staffed according to workload. Correct staffing is a result of accurate reporting and analysis by all levels of DCMC.

INTRODUCTION

Section Overview

This section covers the DCMC Budget Formulation process, focusing on the activities undertaken at the Districts and CAOs from receipt of the DCMC Business Plan through negotiation and final receipt of the District's initial operating budget (Funding Authorization Document (FAD)). In discussing the Budget Formulation process, emphasis is placed on the following topics:

- The CAO and District roles in the DCMC Budget Formulation process; and
- The various budget formulation formats used, including:
  - Sources of information and how they are used; and
  - The need for accurate, timely, and standardized reporting of this information.
- The importance of capturing financial and performance planning information that can be used to support and defend our budget requirements.
- The methods employed by the Districts and/or CAOs to better utilize allocations by performing re-programming actions and/or trade-offs.
- The prioritization of all requirements prior to identifying funding shortfalls.

Objective of Budget Formulation

The objective of the DCMC Budget Formulation process is to accurately estimate and allocate the resources required to accomplish the Performance Plan goals contained in the DCMC Business Plan.

Relationship to the DCMC Business Plan

All plan documents are prepared in accordance with the guidance, formats, and FTE/funding targets provided in the DCMC Business Plan. This Plan contains each District's FTE, labor, and non-labor budget ceilings, reimbursable projections, pay raises, non-labor inflation factors, and FTE performance goal/task targets for the next budget cycle.

Relationship to the DCMC Business Plan, *continued*

These formats and FTE/funding targets allow CAOs and Districts to budget and allocate resource requirements by performance objectives and by object class cost categories. The Districts negotiate with the CAOs to plan performance and spending to match DCMC's Business Plan performance goals within available resource ceilings. This participatory process is dependent upon the valid, accurate, and timely input of Districts and CAOs. All the Plan formats are integrated and all actual and projected funded, unfunded and total requirement data must reconcile. That is:

- The total funded FTEs reported on the Performance Contract must equal the total FTEs reported on the FTE Plan.
- The total Base payroll labor reported on the Object Class Plan must equal the total FTEs reported on the FTE Plan when divided by an Average Annual Rate (AAR) or average salary.
- The Reimbursable Plan requirements must equal the projected Reimbursable Earnings reported on the Object Class Plan.
- The total costs on the Training Plan must equal the total training costs on the Object Class Plan.
- Requirements identified in Facility Business Cases should also be included in the Object Class Plan.

Budget Formulation Process:Overview

The Budget Formulation process begins in March when DCMC disseminates the Business Plan at the annual Business Planning Workshop. This document provides the Districts with Full Time Equivalents (FTEs) and preliminary funding as a result of the resourcing process described in Section 1: Resourcing. The Districts then distribute these funds to the CAOs based on each CAO's performance and cost budgets, adjusted if necessary so as not to exceed the total preliminary allocation. An interim allocation is then negotiated with the Districts during June and July. DCMC HQ then issues an interim budget to the Districts in October of the next fiscal year followed by a formal Funds Authorization Document (FAD) during the 1st quarter or upon receipt of the appropriation from OSD.

The Budget Formulation process does not end until each CAO has received an authorized operating budget. However, budgets will continue to be adjusted throughout the budget execution year by DoD, DLA, DCMC and the Districts, whenever the funding availability or workload requirements change.

Timeline

The timeline showing major Budget Formulation process steps is listed below.

Timeline:
March

1. HQ DCMC issues the Business Plan for the next one-year budget cycle.

2. The District HQ budget staffs review current year FTE, labor, non-labor, performance contract, training and reimbursable budget execution variances, obligation rates, and unobligated balances to validate/adjust the current year budget. This is the basis for the next budget year.

3. District labor budgets are centralized. Labor projections for the Budget year are calculated by multiplying CAO and District Directorate budget year FTE authorizations by a projected budget year Average Annual Rate (AAR) or average salary per FTE. This projected AAR includes a pay raise factor for only 9 months or 75% of the budget year because pay raises are not issued until January, the 2nd Qtr of the budget year. Next, District HQ budget staffs calculate the CAO and District Directorate budget year nonlabor baselines by reducing the current year non-labor budget projections for non-recurring or "one time" costs. Budget year increment and decrement adjustments are then applied to all nonlabor baselines in accordance with the budget year formulation guidance contained in Part D of the Business Plan.

April

4. The Districts distribute plans with preliminary targets for each budget format: Performance Contract, FTE Plan, Object Class Plan, Reimbursable Plan, Training Plan, Facilities Plan, and Vehicle Plan.

May

5. The District HQ Directorates and CAOs review and validate funding and FTE targets, and prepare local Performance Plans, including tasks to accomplish DCMC or District goals. They complete Performance Contracts, Object Class Plan, and FTE Execution Plans, and prepare reimbursable projections for Foreign Military Sales (FMS), NASA, Federal Contract Admin Services (FEDCAS), and other reimbursable hours. Refer to One Book Chapter 11.11. for additional information on the Reimbursable process. CAOs also complete Business Case Fact Sheets (Reference Appendix BF-8) or may complete whole Business Cases at District request for any unfunded amounts that exceed either FTE targets or funding baselines.

Timeline, *continued*:

May

6. The District multi-functional Directorate Team/Process Champion reviews and validates, or recommends adjustments to Performance Contracts, FTE Plans, Object Class Plans, Reimbursable Plans (if applicable), Training Plans, Facilities Plans, Vehicle Plans, and (if applicable) Business Cases and/or Fact Sheets submitted by the CAOs.

7. The District budget staff analyzes and aggregates CAO Performance Contracts, FTE Plans, Object Class Plans, Reimbursable Plans (if applicable), Training Plans, Facilities Plans, and Vehicle Plans to obtain field requirements. District field requirements are added to District Headquarters requirements to obtain District summary requirements.

8. The District budget staff compares requirements to the budget ceilings. If unfunded requirements are identified, reprogrammings and potential tradeoffs are defined and reconciled within the RUC Ground Rules.

9. The District budget staff prepares summary Business Cases for any unfunded requirements remaining after reprogrammings/tradeoffs have been made.

10. The District multi-functional Directorate Team/Process Champion reviews and negotiates adjustments to Performance Contracts, FTE, Object Class, Reimbursable, Training, Facilities, and Vehicle Plans, and District summary Business Cases with CAOs and District Directorates.

June

11. The District Commander reviews/approves the District Performance Contract, Plans, and Business Cases. District budget staffs issue notifications to CAOs and District Directorates on Business Case and/or Fact Sheet decisions made within District authority.

July

12. The District Commander, Operations Support Directorate, and Planning and Resource Management Directorate, negotiate total resource requirement ceilings and performance target goals with the DCMC BPT and RUC. HQ DCMC issues notifications to Districts on decisions made by the Commander, DCMC.

13. DCMC issues the District with an updated apportionment allocation as appropriate. The District budget staff issues notification on revised allocations to CAOs and District Directorates as appropriate.

PLAN FORMATS

DCMC uses seven different District/CAO plans to estimate resource allocation requirements:

- Performance Contract (Appendix BF-1)
- FTE Plan (Appendix BF-2)
- Object Class Plan (Appendix BF-3)
- Reimbursable Plan (Appendix BF-4)
- Training Plan (Appendix BF-5)
- Facilities Plan (OMB Space Exhibit #54 District HQ only)
- Government Owned Vehicle (GOV) Plan (Appendix BF-6)

Plan Format: Performance Contract

The Performance Contract is the basis for performance negotiations between DCMC and the Districts, and the Districts and CAOs, where managers agree to produce performance outputs for FTE resource inputs received. The Performance Contract format requires FTEs to be reported by DCMC Performance Plan objectives and performance goals. This format allows management to determine the appropriate FTE labor resources to allocate to each process to achieve the performance goal output.

Alignment with DCMC's Goals and Objectives

The DCMC Performance Contract is aligned with the DCMC Performance Plan by the DCMC goals and Service Set objectives described in Module 2, Planning.

Plan Format: Performance Contract ***Categories***

The DCMC Performance Contract is comprised of seven major categories:

1. Service Set Objectives, Performance Goals, Investment Goals, and Command Performance Targets
2. PLAS Process, Program, and Metrics Codes
3. Baseline FTEs, Metric Unit Counts, and Performance
4. "Funded;" FTE and Performance projections
5. "Unfunded;" FTE and Performance projections
6. Total FTEs Requested and
7. Negotiations/Approvals

The following sections explain and define the key elements.

Baseline FTEs, Unit Counts, and Performance

The purpose of the columns in the Performance Contract relating to "baselines" is to assist you in defining the basis for projections of the number of FTEs you will expend and the performance you will achieve at the end of the current fiscal year. You must evaluate your current performance levels and the number of unit counts (<u>when the goal is measured by a metric</u>) in order to better determine where you will be at the end of the year.
While having the data as of February 29 doesn't give you all the information you would need to accurately predict the September 30 position, it does give operations, planning and budgeting personnel a benchmark to determine the reasonableness of the predicted September 30 position.

Funded Require-ments/Tradeoffs

The assumption underlying the Performance Contract is that the majority of the goals can be achieved within the initial DCMC funding level. This is accomplished by working efficiently and by making tradeoffs, that is, reprogramming or transferring FTEs from lower priority tasks to higher priority tasks. The assumption is that lower priority work will be postponed in order to free up resources to support higher priority work. The definition of "lower priority" work is discretionary and is normally determined by senior managers at DCMC, the District Headquarters, and the CAOs.

Plan Format: Performance Contract, ***continued***

Unfunded Requirements

Unfunded requirements are the number of additional FTEs you require to achieve the Command goals, after your analysis of priorities and performance and documentation of the tradeoffs necessary to best meet the Command goals within your allocated FTEs. The performance improvements expected from unfunded FTEs should be identified by performance goal in the Fact Sheet or Business Case.

In cases where you have unfunded requirements, your Performance Contract must also be supported with a Business Case. Supporting CAO Business Cases are required for any District summary FTE requirement.

Note: Refer to the Business Case section below for instructions.

Total FTEs Requested

The total FTEs requested is the sum of the "Funded" and "Unfunded" columns.

Negotiations and Approvals

The approved number in this column is the result of negotiations regarding performance and resources between the Districts and CAOs, and the Districts and DCMC Headquarters. Districts do not have to negotiate each CAO Performance Goal; negotiations between the District and CAOs can be done on an exception basis. This means the District can accept all CAO Performance goals that meet District criteria and negotiate only those Performance Goals that do not. Once negotiated, Performance Goals should not be renegotiated to equal or approximate actual data. A Performance Goal should only be renegotiated if there is a significant change in FTE resources, a significant change in workload, or if the DCMC Performance Goal definition or metric measurement changes. The analysis of CAO and District Performance Contracts will be performed by budget, operations, and customer support personnel. All District recommendations will be presented to the BPT and RUC for a final decision to realign resources to accommodate Command priorities. Once final approval has been obtained from the DCMC Commander, the Districts are notified by publication of the RUC minutes. The Districts should notify the affected CAOs in writing within 10 days from receipt of the minutes. Financial Management Reviews (FMRs) and Mission Management Reviews (MMRs) reflect the negotiated performance targets.

Plan Format:
Full Time Equivalent (FTE) Plan

Monthly FTE Plan

Employee labor costs account for over 85% of DCMC's operating expenses; therefore, they must be managed carefully. The monthly FTE Plan is an important tool used to manage monthly employee FTE and base labor expenses. Once a plan is developed, it is not considered a "one-time" effort. The Districts and CAOs will be expected to monitor and adjust their plans as actual gains/losses occur, and as workload requirements change. The goal of this plan is to promptly identify locations where FTEs can not be adjusted without management directed action, e.g., Reassignments, VSIPS, and RIFs. Districts must notify HQ DCMC so that appropriate plans to promptly execute all necessary actions to achieve assigned FTE target can be developed. OCONUS CAOs providing oversight to reimbursable country are responsible for managing and reporting reimbursable FTEs per country. As a result, the activities must separately plan their reimbursable and direct gains and/or losses on a monthly basis as they would on the Object Class Plan.

FTE Gains and Losses

The monthly FTE Plan shows a CAO's monthly planned FTE and endstrength gains, losses, and net FTEs/ endstrengths. Gains can be from new hires external to the District or transfers in from other organizations internal or external to the District. Losses can result from reassignments internal or external to the District, retirements, and other normal attrition, or from Reductions in Force (RIFs) and accompanying Voluntary Separation Incentive Program (VSIP) offers. The plan automatically computes Fiscal Year To Date (FYTD) FTEs each month.

Base Labor

DCMC funds Districts on an aggregate level, for base labor using the District's target FTE allocation multiplied by the Average Annual Rate (AAR) or average salary and benefits. The Districts fund a CAO's base labor by multiplying the CAO's AAR by the CAO's projected September FYTD FTEs.

CAO managers should identify and take necessary action to achieve assigned FTE allocations by year end to ensure the September FYTD FTE is close to the budget year authorized FTE target. However, no permanent actions should be taken without first considering the end strength consequences on the following budget year. The September end strength number indicates the next year's beginning FTE execution. It is just as important as the September FYTD FTE and must be also managed to ensure it is close to the authorized FTE target.

Plan Format:

Full Time Equivalent (FTE) Plan, *continued*

Attrition, unexpected gains or losses and/or delays in hiring during the month should be included in the FTE Plan model and reported to the District Headquarters to ensure that the revised forecasts are incorporated into the information provided to HQ DCMC.

Computing an FYTD FTE

A FYTD FTE is an average FTE computed by dividing the CAO's total planned paid hours, less overtime and holiday hours worked, in the fiscal year by the 2,088 available paid hours in the fiscal year.

For example, a person hired on October 1st would add 1 FTE to the CAO's FYTD FTEs. A person hired on April 1st would only add .5 FTEs to the CAO's FYTD FTEs, because 6 months or 50% of the year had expired before the person was hired. This is depicted in the example shown in Exhibit 3.2.2.

New Hire:	Oct 1	Planned FY paid hours	2,088/2,088	(10/01 – 09/30)	= 1.0 FTE
New Hire:	Apr 1	Planned FY paid hours	1,040/2,088	(04/01 – 09/30)	= .5 FTE

Exhibit 3.2.1 Computing an FYTD FTE

Adjusting FTE Ceilings

CAO Commanders are responsible for meeting their assigned FTE targets. However, due to changes in a CAO's planned gains and losses, individual CAO Commanders may not have the flexibility to achieve FTE and labor budget reductions without implementing significant actions, e.g., RIF, etc. Therefore, the District Commander may adjust DCMC authorized CAO FTE ceilings within the RUC Ground Rules of 10 FTEs or 10% of a CAO's RUC allocation whichever is less. To insure the District as a whole remains within the District's assigned FTEs and funded labor, authorized CAO FTE ceilings and labor costs are centrally managed at the District level.

Attrition

FTEs are primarily reduced by attrition; RIF actions are used only as a last resort. Each CAO will experience a different attrition rate. Generally, it is easier to take advantage of attrition in the larger organizations with a greater number of employees than a smaller organization with fewer employees. Also, the age of the workforce, the location of the organization, and previous RIFs all impact the attrition rate at a CAO. Authorized CAO FTE ceilings may continue to be adjusted through the budget execution year as a result of workload changes, organizational realignments, transfers, attrition rate variances, etc.

Plan Format:

Object Class Plan

Responsibility

The Object Class Plan requires estimated civilian labor and non-labor operating costs and reimbursable earning projections to be reported. CAOs report only the decentralized operating costs for which they are responsible. OCONUS activities must plan each reimbursable country to the same level of detail as they would a non-reimbursable country. The reimbursable Object Class Plan becomes the basis for submitting funding requirements to the Defense Security Cooperation Agency (DSCA).

The Object Class Plan also requires all amounts to be estimated by object class cost element category. Variable and fixed costs can be identified through object class categories. CAOs are given the flexibility of realigning non-labor (with exception of "fenced" accounts) funds to cover new or unanticipated requirements. The Object Class Plan will be utilized to identify trade-offs. Once the requirements have been identified the plan can be segmented into 12 monthly periods to create a Monthly Obligation Plan (MOP). This document is an important tool and is used to support reprogramming recommendations at all levels within the Command.

Variable Costs

Variable costs, such as mission travel, are activity costs that fluctuate with the level of mission activity. Management can reduce variable costs by reducing inefficiencies and/or the level of mission operation activity. For example, there may be insufficient funding to send more than one representative to some meetings. Therefore, the representative selected to attend may be required to notify local counterparts affected by new policy or guidance issued during the meeting.

Fixed Costs

Fixed costs, such as rent, utilities, and communications, are overhead costs that will vary over time or with any change in the location or size of the organization. Management may be able to reduce fixed cost inefficiencies by reducing and renegotiating the amount of space occupied in Federal, commercial and DoD space, and by evaluating cost savings from the lease versus purchase of equipment.
For example, as DCMC staffing levels decline and field offices are eliminated or consolidated, the leased space requirements should decrease. In the event of mandatory budget reductions, discretionary and variable costs are usually reduced first because management has more immediate control over them than over fixed costs. However, the largest cost savings are usually realized by reducing fixed costs, such as rents, which can be expensive and are often overlooked.

Plan Format: Object Class Plan, *continued*

Capital Costs

Special rules apply to furniture, equipment, or computer systems exceeding $100,000. Capital cost items can only be purchased with DCMC approval. These costs are not considered operating costs, are centrally managed and budgeted for by DCMC Headquarters under a separate procurement appropriation.

Military Labor Costs

Military labor costs are paid by the Military Services and are not part of the DCMC appropriation.

Monthly Obligation Plan (MOP)

The MOP is formed by segmenting the Object Class Plan into 12 monthly periods. This is used during the execution year to track actual monthly obligation variances from plans. This permits timely corrective action. Actual obligation data by object class can be obtained by using the Management Analysis Statistical System (MASS) or local PowerPlay modules to extract data from the Automated Accounting System (AAS).

District Budget Model

It is important that all operating costs be accurately and promptly obligated and correctly recorded because historical obligations are the basis for the Object Class Plan estimates. The Object Class Plan is based on the District Budget model as shown in the example provided in Exhibit 3.2.3. The "Reimbursable Earnings" line below only pertains to CONUS FMS.

$000	**Amount Projected by District**	**Amount Authorized by DCMC**	**District $ Amounts Unfunded**
FTE	7,569	7,544	25
Labor	$431,445	$430,000	$ 1,445
Non-labor	$ 55,869	$ 55,000	$ 869
Gross Requirements	$487,314	$485,000	$ 2,314
Reimbursable Earnings*	$ (83,448)	$ (82,000)	$(1,448)
Direct Funds Required	$403,866	$403,000	$ 866

* Does not apply to OCONUS FMS

Exhibit 3.2.2 Example: The Object Class Plan is based on the District Budget Model

Plan Format: Object Class Plan, *continued*
District Budget Model

Six key points to note about the above example are:

- Total labor plus non-labor requirements = gross District requirements;
- Gross District requirements minus projected reimbursable earnings = “direct” funds required;
- The District must formally ask DCMC to increase the Reimbursable Authority ceiling from $82M to $83.448M;
- The $866 represented in the last column reflects the direct funding “shortfall” projected by the District;
- Projected shortfalls require significant amounts of justification in the form of Business Cases, both by Districts and CAOs; and
- Districts/CAOs should plan to operate based upon amounts authorized by DCMC in Business Plan guidance until receipt of formal notification otherwise.

Note the importance of reimbursable earnings. For example, if actual reimbursable earnings recorded were $2M less than originally projected, this results in a shortfall and $2M more in direct funding would be required from DCMC as shown in Exhibit 3.2.3.

	Actual	**Original Projection**	**Difference**
Gross Requirements	$487,314	$487,314	0
Reimbursable Earnings	$ 83,448	$ 85,448	($2,000)
Direct Funds Required	$403,866	$401,886	$2,000

Exhibit 3.2.3 Example: The Importance of Reimbursable Earnings

Plan Format: Reimbursable Plan

Reimbursable Budget Plan

This worksheet is used to project funds that DCMC will receive from other agencies for work performed by DCMC CAO employees. It is also used to issue FTE Reimbursable targets to CAOs.

Each district should complete the "District Reimbursable Budget Plan" spreadsheet, based on actual reimbursable earned through March or reimbursable expenses incurred to date; an updated estimate of FMS, NASA, FEDCAS and other reimbursable hours for the current year; as well as your projection for the budget year. This worksheet does not have to agree with the budget allocation. It should be based on the latest data/insight available.

Each district should complete the "District Reimbursable FTE Plan-Summary by CAO, which identifies the total budget year FTE allocation by CAO. DCMDE and DCMDW should include FMS FTEs on the District HQ line, since FMS FTEs are allocated at the District level for DCMDE and DCMDW. The total FTEs on the CAO summary should agree with your budget year FTEs on the District Reimbursable Budget Plan. It is the FTE backup by CAO.

Note: The current and President's budget allocations are normally provided for information.

OCONUS CAOs

An Object Class Plan is prepared by the budget staffs of the CAOs located Outside the Continental United States (OCONUS) to capture projected reimbursable earnings unlike CONUS activities that use the worksheet to capture projected obligations. This worksheet reflects the estimated reimbursable earnings for the next fiscal year. Sources of OCONUS reimbursable earnings are FMS, NASA, National Science Foundation (NSF), Contract Administration Services Europe (CASEUR), and other cost sharing hours.

Plan Format: Training Plan

In the current "Acquisition Reform" environment, our processes are changing and being streamlined. Our strategy for ensuring our workforce has the necessary operating skills is to continue to support a dynamic employee training program. Once the Command goals and objectives have been established, initial funding targets for the Command and the Districts are developed and included in Part D of the Business Plan. Following is an explanation of each category:

Training Categories

- AIS: Funding is estimated by the HQ DCMC process/project owners, then negotiated during the Business Plan negotiations in June /July. Funding will be issued to Districts in quarterly increments. Once issued, allocations are closely monitored and considered fenced.

- OSD/DLA/HQ DCMC Sponsored Conferences/Workshops: Funding is estimated by the HQ DCMC process owners then negotiated during the Business Plan negotiations in June/July. Conferences/workshops sponsored by District HQ are considered funded within the allocations received with the Business Plan budget allocation.

- Flight Operations: Funding is estimated by the HQ DCMC process owner and preliminary targets are issued during the Business Plan negotiations in June/July.

- Priority 1 (Mission Essential)/Employee Development/CAO Discretionary/Tuition Assistance (Reference App BF-5): Funding is issued on a per capita basis. HQ DCMC, Districts and CAOs will submit detailed training course requirements that match the preliminary allocation received with the Business Plan budget allocation. Requirements exceeding the budget allocation may be included, however, they must be submitted on a separate worksheet. Inputs beyond the initial allocation will be considered for funding as funds are made available.

Both the training requirements and the availability of funding are considered prior to establishing the formal training allocation for the Command and the Districts. The bottom line funding target is "fenced." However, Districts may realign funding within service set categories as required, except for "fenced" categories.

Plan Format: Training Plan, *continued*

Within the funding limitations, HQ DCMC and Districts define the requirements by priority and the unit cost service sets. For the purposes of the datacall, it is assumed that the budget allocation contained within the Business Plan will fully fund your priority 1 training requirements.

Priorities defined

- Priority 1: Training essential to mission accomplishment; needed to ensure attainment of employee performance objectives or to correct serious performance deficiencies; or required by law, regulation or higher authority. Deferment of this training would adversely affect the mission of the organization. For example: A GS-1910 requires S55, Electronics Part II, for Electronic certification.

- Priority 2: Training required for systematic replacement of skilled employees that will result in skills imbalances if not performed; includes career management or other Workforce Development Programs. Deferment would adversely affect mission accomplishment over an intermediate term. For example: GS 1910 has an electronic certification. Future workload indicates skill imbalances in aircraft certification or shortage of 1910 aircraft certification.

- Priority 3: Training of a broadening nature helpful in enhancing overall performance levels of employees already considered competent. Deferment beyond the immediate training cycle would have little immediate adverse mission impact, but would prevent or delay improving present mission accomplishment. For example: A GS-334 wants to take a HTML course that broadens their scope of knowledge.

Plan Format: Facilities Plan

It is a high priority within DoD and DCMC to reduce infrastructure and costs, including the number of facilities and equipment. Our long-term infrastructure costs may be reduced when changes to our facility requirements occur. New or changed requirements are driven by:

- Changes in staffing
- Changes in workload
- Reorganizations
- Lease expirations
- Other management directed actions

These changes cause us to reconfigure current space into larger or small space, relocate, or terminate the space altogether. Most of these changes occur as leases expire. These facility changes are costly and they may also involve additional telecommunications requirements, PCS, layout services, moving expenses, new furniture, and some downtime while the employees move into the new or reconfigured space. Therefore, two items are required to comply with the Business Plan/Budget Datacall:

- OMB Space Exhibit No. 54 (District HQ only) – which identifies planned changes to CAO facility authorization and requirements.
- Facilities Business Case for planned/proposed changes identified in OMB Space Exhibit 54. This will include any leased space that will expire within the budget year (CAOs in conjunction with District staff will complete). If the annual rental costs will exceed $200,000 and the facility may be relocated to commercial leased space, congressional approval will be required through the Title 10 notification process.

Refer to DLA Form 662 metrics cube, which is posted to the DCMC homepage for identification of lease expiration dates. If you have a commercially leased facility and your lease expires during the budget year, you are required to submit either a fact sheet or Business Case with your response to the Business Plan/Budget Datacall.

Plan Format: Government Owned Vehicle (GOV) Plan

Districts and CAOs are under the purview of Executive Order No. 13031, Federal Alternative Fueled Vehicle (AFV) Leadership and DCMC Performance Goal 2.1.11. The Executive Order requires that 75% of our vehicle replacements be with AFVs. More comprehensive controls were required to ensure that only fully utilized vehicles are replaced, and that we achieve the 75% AFV replacement order. Therefore, beginning in FY 00, the GOV ordering process was centralized at HQ DCMC (Reference App BF-6). Districts are responsible for submitted a proposed listing of vehicles subject to replacement. HQ DCMC will review and approve submissions based upon mission requirement and utilization rates. Overall, vehicles should be replaced according to their ability to reduce petroleum fuel usage. AFVs should be selected based upon the type of fuel available in the area the vehicle will be located. (Select http://afdcmap.nrel.gov/nrel/ for alternative fuels available by location.)

Information Technology

Funding targets for DCMC initiatives, infrastructure and the Standard Procurement System (SPS) are developed during the POM process and are managed by the DCMC Command Information Officer and Defense Standard Procurement Systems Office.

BUSINESS CASE REQUIREMENTS

Due to funding constraints, the reserve retained for unfunded requirements is generally minimal. All FTEs/labor and nearly all of our nonlabor funds are issued during the Performance/Budget Plan negotiation session held during the June/July timeframe. However, it is recognized that some unplanned workload changes may require adjustments to FTEs or target annual operating budget authority either during the Business Plan/budget planning cycle (March through July), or out of cycle. If after performing a detailed analysis of the workload change and other reprogramming options (i.e., tradeoffs), either a CAO or the District may have requirements that cannot be covered from within the CAO and/or District allocation.

If this occurs, the Business Case process shall be followed.

- Districts will require preparation of a Business Case Fact Sheet as a minimum (reference App BF-8)
- Districts will review the fact sheets, identify and evaluate District-level tradeoffs among all District CAOs
- Make adjustments in accordance with the RUC Ground Rules
- Notify the CAO(s) of the local decision or if a complete Business Case will be required

All requests to DCMC for funding beyond the preliminary allocation issued with the Business Plan must be accompanied by either a District Summary Business Case and/or CAO Business Case as applicable (reference APP BF-7, Business Case formats).

Since nearly all the funding has already been distributed to other Districts and CAOs, the data requested in the business case is necessary to fully evaluate new requirements against other funded priorities. Following are the categories that must be addressed:

- Purpose
- Resources
- Analysis
- Workload Trend Data
- Metrics
- PLAS/Unit Cost
- Performance Plan Adjustments
- Efforts to Maximize Use of Existing Resources
- Impact if Disapproved
- Commander’s Endorsement

SECTION SUMMARY

As the DoD budget declines, there is more scrutiny of budget submissions by DoD, the Military Services, Congress, and the reimbursable customers. The accuracy of each of the budget formats and worksheets depends on the accuracy of each employee's input of PLAS hours, metrics data, obligation dollar amounts and reimbursable hours reported.

Budget reductions could result from either overstating or understating any of these inputs. For example, the hours an employee charges against a NASA reimbursable contract are compiled and eventually earn FTEs for the command. If they are not properly recorded as reimbursable, in effect, DCMC is providing services to non-DoD customers free of charge. If these recorded reimbursable earnings fall short of the reimbursable budget target, it has the full effect of a budget reduction that translates to a loss of FTEs and employee jobs.

INTRODUCTION

Section Overview

Budget execution for any fiscal year begins on October 1st and ends twelve months later on September 30th when that fiscal year's budget authority expires. Budget execution entails the expenditure of authorized resources and funds to accomplish the goals and objectives of the DCMC Business Plan as efficiently and effectively as possible. This section will explore the following elements of budget execution:

- The Budget Execution Process;
- The Funding Authorization Document (FAD) and what it reflects;
- The types of funding received by the Districts and their appropriate use;
- The budget implications involved with exceeding or under-earning reimbursable authority and the importance of reporting all reimbursable hours and expenditures;
- Roles and responsibilities in budget execution;
- The importance of executing to plans;
- Review and adjustment processes;
- Fund controls and processes;
- Fund control cautions;
- Accounting data and reconciliation tools;
- Bills and payment;
- Violations and penalties; and
- Ratification.

THE BUDGET EXECUTION PROCESS

Basic Steps

For the purposes of this section, annual budget execution at any level is assumed to begin on October 1st with the receipt of a FAD. The FAD provides annual resources for use in performing the mission of the organization. In reality, the FAD is often received after execution actually begins, but the organization will generally know its planned budget levels through information exchanged during budget negotiations in the June/July time period and throughout the Budget Formulation process.

Until receipt of the formal allocation, organizations are expected to begin developing implementation plans based upon the negotiated targets. Delays in developing execution plans may adversely impact an organization's ability to implement a feasible plan when the allocation is finally received. On rare occasions when budget details cannot be resolved within Congress, a Continuing Resolution Authority (CRA) may go into effect instead of a budget. Under a CRA, organizations may continue operations at the anticipated budget levels or at the specified percentage of prior year costs, whichever is lower.

The basic steps of budget execution at all levels are outlined below and are discussed in more detail in the segments that follow:

- Review the FAD for impact to proposed Performance Plan/budget and new or changed workload priorities;
- Submit revised Performance Contract, FTE Execution Plan, MOP, and Reimbursable Earnings Plan, consistent with existing workload priorities and resourcing levels authorized in the FAD;
- Establish fund control procedures and points of contact to monitor expenditures in all areas of the budget (FTEs, dollar expenditures, reimbursements, performance);
- Verify accounting data;
- Review and assess status monthly;

- Submit updated/revised plans as priorities change and/or as it is determined that actual execution will vary from the existing plan;
- Submit Business Cases as necessary for viable resourcing shortfalls resulting from new or changed requirements;
- Implement DCMC/District-directed adjustments as necessary, updating plans accordingly; and
- Assure completion of execution by year end cutoff.

THE FUNDING AUTHORIZATION DOCUMENT (FAD)

District FAD

The District's operating budget, referred to as the FAD, reflects the District's annual authorized operating funds by type (see below), the authorized FTEs the dollars are expected to cover, and any conditions, limitations, exclusions, or other factors that may apply. Funds are authorized in terms of cumulative quarterly limitations as well as the annual total; the specified limit for any quarter cannot be exceeded by the end of that quarter. Backup information received in conjunction with the FAD itemizes the budgeted amounts for each category of expenditure (labor, travel, training, etc.). If revised during the year, the remarks section of the FAD will itemize the changes. The FAD confers fiscal authority and responsibility to the District Commander for the resources it authorizes. A copy of a FAD and backup is included in Appendix BE-1.

CAO/PSE FAD

CAO and PSE operating budgets are suballocations of the District's overall authorization. The categories for which funds are suballocated (travel, training, communications, etc.) and/or retained for District centralized control currently vary among the Districts, as does the format of the actual document used. However, each District provides some type of documentation that formalizes the dollars, FTEs, and reimbursable authority suballocated down to the CAO Commander/PSE Director for direct control and responsibility.

TYPES OF FUNDING

There are many types of appropriated funds within the government. Each is appropriated for a specific purpose and different usage requirements and limitations apply to each. The most familiar types of funds are discussed below.

O & M Funding

Operations and Maintenance (O & M) appropriations are one-year funds and apply only to the fiscal year for which they are designated. This is the normal funding received by DCMC, the Districts, and the CAOs for the ongoing operations and maintenance requirements of the specified fiscal year. O & M funds are issued in terms of *direct* and *reimbursable* authority. The sum of the two represents the District's total authorized operating funds.

Reimbursable Funding

Reimbursable funding represents that portion of the District's total operating requirement that is expected to be collected into the District's budgetary accounts through Contract Administration Services (CAS) support provided to non-DoD customers on a reimbursable basis.

Direct Funding

Direct funding is the remainder of the total operating requirement, representing CAS services provided to DoD customers, and is funded through a direct dollar appropriation.

PDW Funding

Procurement Defense Wide (PDW) funding is three-year funding and applies to the procurement of certain types of capital equipment (for example, computer network equipment, communication systems, etc.) and items for which the aggregate cost will exceed the published expense/investment threshold, currently set at $100,000. O & M funding may *not* be used for procurements that meet the requirement for PDW funding; to do so would be in violation of Section 31 of the United States Code (USC) 1301. Because of the potential for inadvertent misuse, these funds are normally strictly controlled at the DCMC or the District level.

CAO/PSE requirements for computers, network and communications equipment, communications systems, furniture, etc. must be addressed to the Directorate of Administration and Information Management where requirements that may mandate use of PDW funding are centrally managed. The Directorate of Administration and Information Management is also responsible for assuring that available funds are applied consistently to organizational requirements throughout the District, or otherwise by priority, consistent with the direction received from Procurement Corporate Information Management at DCMC Headquarters and available funds.

Other Types of Funding

Other types of funding are used less frequently within DCMC, but may be made available under specific circumstances. For example, Base Realignment and Closure (BRAC) funding was made available for costs related to implementation of BRAC actions mandated in 1993 and 1995. Military Construction (MILCON) funding applies to government construction and/or the purchase of buildings and structures. It was made available for the purchase or construction of a building to house the Defense Contract Management District West (DCMDW) Headquarters, which was directed to relocate to government-owned space as a result of BRAC. You may hear occasional reference to Defense Working Capital Fund (DWCF) funding, the typical funding applicable to fee-for-service organizations, or Research and Development (R & D) funding, and others which seldom have application within DCMC, and have specific purposes and limitations for use.

BUDGET IMPLICATIONS

The separation of the District's total operational funding into direct and reimbursable segments creates some significant budget implications and requires cautious management. Here are some important points to keep in mind:

- The expenditure of *direct* funding is officially determined by subtracting recorded reimbursable earnings from total expenditures.

- The recording of *reimbursable* earnings occurs *after the fact;* operational funds involved will already have been expended. *Non-recording* of those earnings will result in expenses being charged to the *direct* authorization, and overexpenditure may result.

- *Unearned* reimbursement funding may *not* be expended; therefore, underearning the reimbursement authorization has the same effect as a budget reduction. Projected underearning must be reported immediately so that adjustments can be made if the capability exists at the District or DCMC levels.

- Earning *above* the reimbursement authorization does *not* automatically increase budget authority. Projected overearning must be reported immediately so that appropriate adjustments can be made if the capability exists at the District or DCMC levels. (See Appendix BE-2 for additional information on Reimbursement Program Management.)

ROLES AND RESPONSIBILITIES

The major roles and responsibilities in the Budget Execution process are as follows:

- **District Commander:**
  - Accountable budget holder for the District;
  - Ultimately responsible for proper execution of the District's budgeted funds; and
  - Represents the District on the RUC.
- **Director, Planning and Resource Management:**
  - Budget Officer for the District with responsibility for overseeing all aspects of budget formulation and execution within the District;
  - Keeps the District Commander informed of budget status and execution problems; and
  - Represents the District on the BPT.
- **CAO Commanders/PSE Directors:**
  - Accountable budget holders for portions of the District budget suballocated for their direct control, with ultimate responsibility for proper execution of funds so suballocated.
- **CAO/PSE Budget Managers:**
  - Budget Managers for their respective CAOs/PSEs with responsibility for overseeing all aspects of budget formulation and execution within the organization; and
  - Responsible for keeping the Commander/Director and the District Directorate of Planning and Resource Management informed of budget status and execution problems.

- **Designated Fund Controllers:**
  - Focal points for control and accounting for specific categories of funding, usually in conjunction with other control responsibilities involving processes related to those funds; and
  - Responsible for assuring accurate, complete, and timely accounting and processing of obligations incurred against funds designated to their control.
- **Employees:**
  - Responsible for awareness of and compliance with the obligation and fund control procedures of their respective organizations and utilizing those channels as appropriate for obtaining the supplies, equipment, services, etc. necessary in the performance of their official duties; and
  - May *not* incur obligations except as expressly authorized by the organization and specific job responsibilities.

IMPORTANCE OF EXECUTING TO PLANS

Five Basic Execution Plans

The DCMC Budget Execution process not only involves the actual expenditure of budgeted resources, but continually looks at the status of those expenditures in view of new or changing workloads, priorities, projected budget shortfalls, and/or unfunded requirements identified through Business Cases. The process is used at all levels within DCMC where allocated or suballocated resources are managed. The process involves comparing the progress of actual monthly, year-to-date, and projected annual expenditures to the applicable plan to determine the status of execution, and implementing corrective or adjustment actions as appropriate.

The five basic plans continually scrutinized in this process are those discussed under Budget Formulation, as follows. Examples of these plans can be found in Part D of the DCMC Business Plan.

- Performance Contract,
- FTE Execution Plan,
- Reimbursable Earnings Plan,
- Object Class Summary Budget, and
- Training Requirements Worksheet.

Updating Plans

CAOs, PSEs, and managers of centrally controlled funds are the primary executors of budget authority; their execution plans form the basis for the Districts' and DCMC's execution plans. The accuracy and currency of these primary execution plans, and their roll up into District and DCMC plans, is critical to budget execution throughout the Command. They must be updated upon receipt of the initial FAD to reflect planned performance and expenditure consistent with current workload priorities and actual resourcing received. They must be updated as necessary *throughout* the year to reflect additional changes as they occur.

Where viable resourcing shortfalls result from new or changing requirements, Business Cases may be submitted. Adjustments may be made at the District and/or DCMC levels consistent with the priority of the requirement and the availability of surplus funding at any other DCMC organizations. It must be recognized, however, that Business Cases may *not* be able to be funded. Updated plans and actual execution must therefore proceed according to the highest mission priorities until disposition of the Business Case can be made.

Potential Execution Impacts

New and changing requirements must normally be met within existing DCMC resourcing. For this reason, actual execution is continually assessed against existing plans to assure actual execution is progressing as planned. The execution status is also discussed monthly at BPT meetings. The reviews include identification of areas where excess funding or funding programmed to lower priorities has occurred, and is available for reprogramming by the Districts or DCMC to new, higher priority unfunded requirements.

Reprogramming actions can have an *adverse* impact on the budgeted organization if execution plans do not reflect current priorities and requirements, if actual execution is not consistent with the plans, or if actual status is incorrectly reflected in official accounting records. Review and adjustment processes are discussed in the following segment. Later segments address the official accounting record and reconciliation actions that must be taken to assure it reflects actual status.

REVIEW AND ADJUSTMENT PROCESSES

Priority Adjustments

The identification of significant budget shortfalls or new, high priority requirements may require immediate resourcing adjustments throughout the Command. These adjustments will normally involve first looking across the Command for economies that can be implemented or for funding applied to lower priority requirements, and adjusting that funding accordingly. In extremely significant situations, reductions may extend to some or all of the more discretionary areas of budgeted funding such as Permanent Change of Station (PCS) (Defense Contract Management District East (DCMDE) and DCMDW only), travel, training, supplies, equipment, and overtime.

Routine Monthly Review, Assessment, and Adjustment

CAO, PSE, and District central fund controllers must conduct a monthly review of their budget status, comparing planned performance and expenditures to budget controls and accounting records and instituting corrections and adjustments as appropriate. As the year progresses, excess local funding should be identified through this process and reprogrammed internally or returned to the Districts for reprogramming. Plans should be updated accordingly. The District Directorates of Planning and Resource Management perform a similar review, as does DCMC Headquarters. Significant variances or anomalies may result in budget adjustments; adjustments are not normally made as a result of routine monthly review.

Financial Management Reviews (FMRs)

As a part of the management review process, FMRs are conducted at the DCMC Headquarters level in a forum that presents a somewhat in-depth review of all aspects of budget execution and unit cost across the Command. FTE execution is addressed down to the CAO level. Dollar execution is addressed primarily at the District level, but CAO status and problems that contribute to or explain the District status must be addressed. The overall intent of the FMR is to assure execution is progressing satisfactorily, and to identify developing or existing execution problems for discussion and resolution. While the review itself is not a direct adjustment process, it could result in the identification of problems that eventually will be resolved through budget adjustments. Copies of the four basic budget execution charts that the Districts provide at the FMR are included in Appendix BE-3. Further information regarding FMRs is included in Module 4 - Assessment and Feedback.

Mid-Year Review and Adjustment

A more in-depth review of budget execution across the Command is conducted at mid-year and is more likely to result in budget adjustments. The mid-year review is conducted in the April/May time frame. The purpose of this review is to reassess funding priorities at the District level and throughout DCMC, and to reprogram surplus resources as necessary to meet those priorities. The review looks at expenditures incurred year to date as well as funds programmed for the rest of the year and the requirements they represent. Areas of underexecution are assessed to determine actual requirements and priorities; funding determined to be in excess is withdrawn for reprogramming. Areas of apparent shortfall are similarly reviewed along with viable Business Cases and other yet unfunded requirements. Available funding is reprogrammed according to availability and relative priority. Lower priority requirements remaining unfunded after the mid-year review are prioritized for potential future funding.

The overall intent of the mid-year review and adjustment is to ensure available funding is applied to mission priorities and utilized to the overall best advantage of the Command. It should also be noted that the Budget Formulation process begins in this same approximate time frame, and that a large part of the future year's requirement will be based on execution in the current year to date. Executing to plans that reflect current requirements and priorities, and performing reconciliations that assure accurate and complete execution status in accounting records, will therefore preclude adverse impact in the present as well as in future years.

80% Rule

Financial management regulations require that at least 80% of the annual allotment be expended by the first month of the fourth fiscal quarter--in other words, by the end of July. CAO, PSE, and District execution plans must incorporate this requirement. If actual execution indicates that the 80% level may not be achieved, funding may be reprogrammed to other priorities advantageous to the Command. Again, accounting records and execution to plans reflecting current requirements and priorities will preclude adverse impact.

Year-End Non-Labor Cutoff

Each District and DCMC Headquarters establishes a year-end cutoff date by which all suballocated non-labor funding must be executed (that is, formally obligated). After this date all unused funding will be withdrawn from either District or CAO/PSE control. The cutoff is intended to allow sufficient time for accounting records to be reconciled and unused funding to be identified, reprogrammed, and expended for other District or DCMC priorities before the funds expire on September 30th. The actual cutoff date varies from District to District, but is communicated well in advance. CAOs and PSEs must make sure that their plans incorporate the local cutoff and that actual execution is finalized by the cutoff date.

FUND CONTROLS AND PROCESSES

CAOs, PSEs and central fund controllers must establish appropriate fund controls and processes, as necessary, to prevent overexpenditure of the dollars authorized by the FAD.

Payroll Cost Controls

Regular and recurring labor dollars, such as employee salaries, recurring pay differentials (for example, night, Sunday, and hazard pay differentials), the government's share of employee benefits, and other regularly paid payroll costs are effectively accounted for through the payroll system and official accounting records. Control of overall expenditures is indirectly exercised through management of on-board strength via the FTE Execution Plan and comparison of actual and projected costs (discussed in a later segment of this section) to the MOP.

Overtime/Holiday Premium Pay

Overtime/Holiday Premium Pay funding must be programmed via the MOP to meet expected workload and priorities throughout the entire year, and must be controlled in advance of the expenditure to assure approvals and execution are in accordance with the MOP. MOP planning must include consideration for liability of accrued Compensatory Hours Worked, which will *automatically* convert to paid overtime if the offsetting Compensatory Leave is not used after 26 pay periods.

Awards

Monetary awards must be monitored and controlled to budget totals to assure the total expenditure will not exceed the amount authorized by the FAD.

Other Labor

Funding for other non-recurring labor costs, such as Lump Sum Leave (also called Terminal Leave), VSIP/Voluntary Early Retirement Authority (VERA), etc., must be programmed in the MOP according to expectations and monitored to determine that actual expenditures do not exceed the total authorized by the FAD.

Non-Labor

Every obligation of non-labor funds must be approved and documented on the appropriate form and recorded in official accounting system records. The organization's budget manager may choose to issue some or all of the non-labor budget amounts to various focal points for control by type of expenditure, such as travel, training, or supplies.

Regardless of the methodology used, the organization's fund control process must assure that each obligation of non-labor funds is:

- Documented and approved on the appropriate form;
- Certified for fund availability prior to formally incurring the obligation;
- Recorded in the organization's fund control logs which must reflect the current balance of funds available at all times; and
- Recorded in official accounting records (AAS). Where accounting input is centrally controlled within the District, copies of the obligating documents must be forwarded to the input site within the same month as the obligation was incurred, and input must be verified through the reconciliation process (discussed later in this section).

FUND CONTROL CAUTIONS

The official accounting record is used at all levels within DCMC to monitor and assess the status of budget execution. It is an important factor in projecting budgetary requirements for future years. Organizations must therefore assure that the accounting record reflects complete and accurate execution. Particular caution must be exercised in the following potential problem areas:

- Bypassing Established Controls: With the increased use of credit cards and telephone ordering, it is easy to bypass established fund controls entirely. This could result in an unexpected overobligation of funds. New procedures for credit card obligation and payment specify the local controls and approvals that are currently required in that arena. Plans to further expand the use of credit cards within the government highlights a continuing need for caution. Frequent monitoring of this and other obligation processes should be employed to identify oversights and reinforce adherence to local policies and procedural guidance.

- Recurring Costs: Obligations must be recorded into the accounting system for the month in which they are incurred. Timely routing of obligating documents to the input site as they are finalized is important. One significant problem involves the recording of services received on a recurring and ongoing basis, such as telephones, Government Vehicle (GOV) fleets, some rentals, etc. It should be noted that the bills received for payment of these costs are *not* the basis for obligation--they are the <u>result</u> of a *prior* obligation, and usually arrive well after the obligation was incurred. The Miscellaneous Obligating Document (DD Form 2406) or other locally accepted formats must be used to record these obligations in estimated amounts each month as costs are incurred. Failure to record such obligations in a timely manner could ultimately result in overexecution or in necessary funds being withdrawn (as the result of the appearance of underexecution).

- Adjusting for Finalization of Estimated Obligations: Fund controls must incorporate increased or decreased obligations resulting from final payment of obligations established as estimated amounts. This applies to such obligations as Temporary Duty (TDY) travel orders and telephone, GOV, and other expenses mentioned in the preceding paragraph. Failure to incorporate such adjustments could result in overexpenditure or underexpenditure, depending on the preponderance of adjustments.

ACCOUNTING DATA AND RECONCILIATION TOOLS

Fund Citations

Each obligating document prepared by the CAOs/PSEs must cite the full accounting data, or fund citation(s), applicable to the amount(s) obligated by the document. The standard structure of the fund citation is illustrated below, and the specific information represented by each element of the situation is indicated in the references that follow. The elements of the fund citation that will vary among Districts are underlined.

9780100.	5169	001	621.99	21.11	S33181	XQ98	GA8XQ9800001TP	GAO	($$$)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)

1. Appropriation: "97" indicates a DLA appropriation, "8" indicates funding for FY 98, and "0100" indicates O & M funding. Except for the change in fiscal year effective each October 1st, this element will be constant in District fund citations.

2. Subhead: "5169" indicates DCMDW. The DCMDE subhead is "5163." The DCMDI subhead is "5149." This element will be constant within each District.

3. Suballotment Number: "001" signifies the sequential number of the suballotment to the organization indicated by the appropriation and subhead. For DCMDE and DCMDW, the suballotment number is "001;" for DCMDI it is "085." Districts normally receive only one suballotment per fiscal year, and the element will normally be constant in District fund citations.

4. Cost Code: A 5-digit code identifying the mission function to which the cost applies. The FY 98 cost code tables for 600 (Contract Administration Services) and 900 (Command and Support) program functions are contained in the Financial Management Regulation (FMR). Cost codes are subject to change each fiscal year. Annual cost code tables are published and distributed by DLA and communicated throughout DCMC. Organizations should inquire about the cost code table for the new fiscal year if it has not been received through normal distribution channels.

5. Object Class: A 4-digit code identifying the purpose (travel, supplies, etc.) to which the cost applies. The object class table is contained in the FMR. Object class codes are maintained by DLA and are occasionally changed, but remain somewhat constant. Object class code changes are published and distributed by DLA and communicated throughout DCMC.

6. Accounting Station: "S33181" signifies Defense Finance and Accounting Service (DFAS) Columbus, the accounting station for all of DCMC.

7. DFAS Designator Code: Used in conjunction with the Document Reference Number, it consists of the Activity Code, Fund Code, and Fiscal Year applicable to the obligation, and provides a quick reference for DFAS to identify the correct account. The DCMDW Activity Code and Fund Code are "XQ" and "9;" for DCMDE they are "XL" and "3;" for DCMDI they are "XQ" and "A." Except for the change in fiscal year effective each October 1st, this element will be constant in District fund citations.

8. Document Reference Number: The reference number under which the obligation will be entered in official accounting records. A unique reference number must be assigned locally (in accordance with individual District numbering conventions) for each fund citation contained in each document. Document reference numbers must *not* be duplicated, and the local numbering convention is established in such a way as to avoid duplication.

9. Organization Code: The established code of the organization whose budget will be charged.

10. Obligation Amount: The dollar amount applicable to the fund citation.

Timeliness of Recording Obligations

Accounting regulations specify that all obligations must be recorded in the accounting system for the month in which they are incurred. Since accounting input is centralized within most of DCMC, CAOs and PSEs must assure that copies of their obligating documents are routed to the input site with sufficient time to allow input to the accounting system before the month-end cutoff. To avoid input backlogs, these should be forwarded at least weekly, and without delay, for the final submission of the month.

Liaison Offices must assure that all obligations are received and entered by the cutoff. Sequentially numbered transmittal sheets or monthly summaries are used at the input site to assure receipt of all intended documents. This order makes follow up for missing transmissions or individual documents easier to conduct. The date of the cutoff varies from month to month, but can occur as early as four work days following the month's end, so the timeliness of final transmissions and summaries is critical to assuring that all obligations are recorded.

Importance of Reconciliation and Assessment

As already noted, the assessment of execution status as reflected in official accounting records is the basis for most District and DCMC adjustment actions that may affect funding at the operating level during the execution year. These same records also play a large role in projecting and assessing budgetary requirements for future years in the Budget Formulation process. Local reconciliation of fund controls to accounting records will eliminate errors and omissions in the accounting records that can adversely affect current execution and future year funding. Assessment of status against execution plans will assure management attention is given to new and changing requirements and other execution impacts. Resultant management actions will assure resources are applied to the priorities of the mission. These actions are essential to effective budget execution and accomplishment of mission priorities throughout the Command.

Reconciliation and Assessment Tools

The following reports are tools available to CAOs, PSEs, central fund controllers, and District budget managers to reconcile and assess the plans and controls listed below each report. Copies of the reports and illustrations of how the data can be used are included in the appendices as indicated.

- UPCC760A, Summary Budget Project Data Report (Appendix BE-4): Summary of labor hours and dollars by organization
  - FTE Execution Plan,
  - MOP,
  - Overtime Fund Controls,
  - Award Fund Controls, and
  - Other Labor Fund Controls.
- UPFE400B, Status of Financial Resources (Appendix BE-5): Summary of non-labor expenditures by organization
  - Non-labor Budget Controls, and
  - MOP.

- UPFE380B, Realtime Expenditure Listing (Appendix BE-6): Listing of obligations by organization and document reference number; used to verify obligations included in the official accounting record and to determine obligation adjustments resulting from final disbursement
  - Non-labor Budget Controls, and
  - MOP.
- UPFE350A, Accrued Expenditures Unpaid: Aged listing of undisbursed obligations; used to identify aging, undisbursed obligations for follow up action
  - Non-labor Budget Controls, and
  - MOP.
- UCNA440A/B/C, Defense Contract Administration Reimbursable Reporting System (DCARRS) Reimbursement Reports (Appendix BE-7): Detail and summary listings of reimbursable workload and earned hours by organization
  - Reimbursable Earnings Plan.
- PLAS Data (Appendix BE-8): Available from local PLAS systems; shows hours by organization and PLAS code
  - Performance Contract.
- Metrics Data (Appendix BE-9): Available from local records and summarized monthly
  - Performance Contract.
- UPFE640A, Trial Balance (Appendix BE-10): Summary of Obligations by General Ledger account code; used by Districts and DCMC to assess the status of District level execution
  - MOP (District level), and
  - Reimbursable Earnings Plan (District level).

- UPCE500A, Obligations (RCS 48) Report (Appendix BE-11): Summary of obligations by object class and cost code; used by Districts and DCMC to assess status of District level execution

  – MOP (District level), and

  – Reimbursable Earnings Plan (District level).

BILLS AND PAYMENT

The final phase of budget execution to be discussed in this section is the paying of bills. Some bills are submitted directly to DFAS for payment against the established obligation, but most are submitted directly to the organization. These bills must be certified and forwarded for payment against obligations previously established.

Certification For Payment

Certification involves verifying that the obligation has been fulfilled (that is, supplies, equipment, or services have been received) and that a sufficient obligation has been established in the accounting system to cover the payment. Upon verification of these factors, the bill must be certified, the applicable fund citation (complete with document reference number) added, and the bill forwarded to DFAS for payment. Attaching a "PEEK" sheet (copy of the system record reflecting the obligation) will assist DFAS in identifying the obligation to disburse against and avoid payment problems. This procedure is becoming a standard practice within some Districts.

A typical certification statement is illustrated below:

I hereby certify the materials/services billed hereon have been received and accepted, and invoice is appropriate for payment. Fund citation for payment is as follows:

9780100.5169 001 925.01 26.51 S33181 XQ98 HF8XQ98M2031MS HFA ($122.51)

(Signature, Title)

Timeliness and Follow Up

Most contracts contain an interest clause, and bills must be paid within a given number of days from receipt by the government in order to avoid payment of interest. Receipt at the CAO or PSE constitutes receipt by the government. Timely and consistent processing of bills for payment will avoid additional charges to the budget for interest, and will assure a good vendor relationship for future dealings. Follow up should also be performed periodically for aging, unpaid obligations. These may represent accounting errors or duplicate recordings, cancellations that were not recorded, vendor payment problems, or a variety of other situations that unnecessarily tie up budgeted funds. These situations must be researched to determine the validity of the unpaid obligation and/or to request an invoice from the vendor.

VIOLATIONS AND PENALTIES

Section 31 of the United States Code specifies various situations that represent violations of budget execution statutes and the penalties applicable to each. The most frequent violation situations experienced within DLA are itemized below:

- **Overexpenditure** (Violation of 31 USC 1341): Cumulative obligations may not exceed total authorized funding. This is the most basic premise of budget execution. Accurate and complete budget controls will avoid situations that can result in an overexpenditure.

- **Unauthorized Purpose** (Violation of 31 USC 1301): Funds may not be utilized for purposes other than those for which appropriated. This statute prohibits the use of O & M funding to procure capital equipment, as discussed earlier under Types of Funding. It also applies to other situations, as was the case with a Midwest training facility funded through an O & M appropriation. The facility purchased a quantity of umbrellas to have on hand for use by visiting students who were caught unprepared at lunch time for the frequent mid-day rains in the area. An official review discovered the expenditure and judged that the umbrellas did not contribute to the education of the students, and, therefore, was an expenditure beyond the intent of the appropriated funding. The training facility was therefore in technical violation of this statute.

- **Exceeding Period of Availability** (Violation of 31 USC 1502): Funds may not be obligated after their expiration date. Violations of this statue frequently involve modifications to prior year contracts. There *are* conditions under which prior year contract obligation amounts are appropriately increased in later years. One example is when entitlement will be based on actual costs incurred, and the original obligation is established as an estimated amount. However, prior year funds may *not* be used to increase the quantities ordered or the scope of work identified on the contract. Such increases are considered new requirements and must be funded from current appropriations. Legal counsel should be sought when in doubt as to the validity of citing prior year appropriations on modifications.

- **Subdivision Exceeds Total Authorized** (Violation of 31 USC 1517): Total funds authorized may not be exceeded by the sum of any subdivision of those funds. Districts, therefore, cannot suballocate funding in excess of the total District budget. If funds have been totally suballocated, new requirements, changing priorities, and requests for increases must be dealt with by reprioritizing available funds and adjusting allocations accordingly.

RATIFICATION

The ratification process applies to obligations incurred by government representatives (employees) who either lack the appropriate authority to obligate the government or who did not follow appropriate procedures for the obligation process. If it appears warranted, an unauthorized obligation can be submitted for review under the ratification process. If it is determined in the review process that (1) the government has clearly benefited from performance of the unauthorized obligation, (2) the obligation would have otherwise been appropriate if made by an authorized contracting officer, (3) the price is determined to be fair and reasonable, *and* (4) funds are available and were available at the time of the unauthorized commitment, the obligation may be ratified and an appropriate procurement instrument entered into after the fact.

Absent these findings, the case may be subject to resolution by the General Accounting Office (GAO) and the employee may be held personally liable for the cost involved. Organizations must take positive action to preclude such unauthorized obligations by ensuring that their employees are aware of applicable procedures and authorities.

SECTION SUMMARY

Execution of District and CAO budget authority is dependent on the actions of many individuals throughout the organization. Successful execution is dependent on executing to plans which reflect the DCMC corporate goals and objectives and current workload priorities, as well as on accurate and timely documentation and recording of expenditures consistent with budget authority. The Budget Execution process involves not only expenditure of authorized funding, but a continual look at new and changing priorities across the Command. Adjustments are made as necessary to meet continually changing workloads and priorities and to utilize all available funding efficiently and effectively in the accomplishment of the overall DCMC mission.

MODULE SUMMARY

In summary, this module has provided in-depth information on the Resourcing, Budget Formulation, and Budget Execution processes. These processes encompass significant events in the IMS. Again, in light of continuing budget reductions, we face strong competition with other DoD agencies for scarce dollars. In this increasingly competitive fiscal and performance-based environment, we must be able to demonstrate that we are using our resources to the maximum benefit of the Command and of DoD as a whole. Employing standard budget formulation and execution methodologies across DCMC will facilitate the equitable allocation of resources to the Districts and CAOs and will improve the Command's ability to justify these resources.